



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

September 27, 2013

TO: Mitchell H. Katz, M.D., Director
Department of Health Services

FROM: Wendy L. Watanabe
Auditor-Controller

A handwritten signature in blue ink, reading "Wendy L. Watanabe", is written over the printed name and title.

SUBJECT: **DEPARTMENT OF HEALTH SERVICES - HEALTH SERVICES
ADMINISTRATION AND OFFICE OF MANAGED CARE
PROCUREMENT REVIEW**

We reviewed the Department of Health Services' (DHS or Department) Health Services Administration's (HSA) and Office of Managed Care's (OMC) compliance with County procurement policies and procedures. Our review included interviewing HSA and OMC personnel, reviewing purchases, evaluating internal controls, inventorying equipment and supplies, and observing supply warehouse and stockroom operations. Our review also included evaluating controls over DHS' Health Materials Management System (HMMS).

In November 2011, subsequent to our review, DHS replaced the use of the HMMS procurement system at HSA and OMC with the County's electronic Countywide Accounting and Purchasing System (eCAPS) Procurement function. Where applicable, HMMS internal control weaknesses noted in our review that pre-date the Department's implementation of eCAPS Procurement are discussed in the context of the current control environment. The Auditor-Controller (A-C) will conduct a follow-up review of DHS procurement operations upon completion of Department-wide implementation of eCAPS Procurement.

Background

DHS' Materials Management Section (Materials Management) has primary responsibility for ordering items, receiving deliveries, managing supply inventories, and monitoring equipment at HSA and OMC. Fiscal Services reviews purchases and issues payment on behalf of HSA and OMC. HSA's and OMC's services and supplies budget

for Fiscal Year 2011-12 was approximately \$420.7 million (\$221.5 million and \$199.2 million, respectively).

Review Summary

We noted that HSA's and OMC's purchases were appropriate and necessary for their operations. However, HSA and OMC management need to ensure that staff comply with all purchasing requirements, and appropriately segregate incompatible purchasing, equipment, and supply functions. The following are the detailed results of our review.

General Purchasing and Payment Controls

County Fiscal Manual (CFM) Chapter 4 requires department staff to complete purchase requisitions to request items, and obtain management approval. Approved requisitions are sent to procurement staff, who subsequently issue purchase orders to vendors to order the requisitioned items. Purchase orders are formal agreements between the County and vendors, which identify purchasing terms (e.g., item type, quantity ordered, price, etc.), and initiate the encumbrance of budgeted funds. Purchases should not be initiated until the department has properly approved requisitions and purchase orders in place, so there is no ambiguity about what is being purchased, the agreed upon pricing, and the availability of funds.

The CFM also requires staff to review shipping documents provided by vendors (e.g., packing slips, etc.), and complete receiving reports to verify all items received. It also requires invoice processing staff to conduct a three-way match of invoices, purchase orders, and receiving reports to ensure payments to vendors are only made for items that were actually ordered and received, and that the correct prices are paid.

We reviewed 86 purchases made by HSA and OMC, totaling approximately \$3.6 million, and noted the following:

- **Purchase Requisitions** - HSA and OMC ordered items directly from vendors without sending approved requisitions to Materials Management to process for two (2%) purchases, totaling \$7,600.
- **Three-Way Match** - HSA and OMC paid 45 (52%) invoices, totaling \$774,900, without completing the three-way match of the purchase order, receiving report, and invoice. We noted missing purchase orders, packing slips/receiving reports, and conflicting payment amounts for these transactions. For example, we noted two payments with no purchase order, totaling \$55,600, where HSA and OMC paid \$34,000 more than the agreement price. If a three-way match was properly completed, they may have identified the price difference before the payment was approved.

- **Replacement Check** - HSA and OMC issued a \$3,000 replacement check to a vendor without verifying if the original check was cashed.
- **Inappropriate Prepayments** - HSA and OMC prepaid \$827,800 for postage, training, and conference speakers without obtaining pre-approval from the Internal Services Department (ISD). Use of prepayments results in the need to ensure goods and services are received, and track remaining balances to confirm complete and appropriate use of the prepaid funds.
- **Vendor Payment Distribution** - HSA and OMC hand-delivered 11 payments, totaling \$88,400, to a vendor using a DHS employee. We noted that HSA and OMC do not have procedures to verify delivery, such as requiring staff to obtain the vendor's signature acknowledging receipt.
- **Timeliness of Payments** - CFM Section 4.5.13 requires departments to pay invoices within 30 days of receipt. We noted that HSA and OMC paid 37 (49%) of the 75 invoices reviewed an average of 102 days late. Paying vendors late could result in interest charges and late payment fees.
- **Invoice Processing** - HSA and OMC do not mark invoices "paid", as required by CFM. Marking invoices "paid" could prevent duplicate payments.
- **eCAPS Transaction Monitoring** - HSA and OMC do not properly monitor pending and rejected transactions in eCAPS. We noted 16 transactions, totaling \$128,400, that had been pending for an average of 310 days, and 27 rejected transactions, totaling \$99,000, that were unresolved for an average of 868 days. Twenty of the 27 rejected transactions were for the Department of Public Health (DPH), and as a result, HSA and OMC could not resolve them. DHS should resolve all of their pending and rejected transactions in eCAPS, and work with DPH and the A-C to resolve DPH's transactions.

Recommendations

Health Services Administration and Office of Managed Care management:

1. **Forward approved requisitions to Materials Management staff for solicitation.**
2. **Perform the three-way match before paying vendors, and verify that vendors charge agreement prices.**
3. **Instruct staff authorizing payment of invoices to request payment on verified outstanding liabilities.**

4. **Ensure prepayments are authorized by the Internal Services Department.**
5. **Monitor purchase order prepayments to ensure goods and services are received, and any remaining balances are tracked and appropriately used.**
6. **Establish procedures to confirm vendor receipt of hand delivered warrants.**
7. **Process payments within 30 days of receipt of the vendor's invoice, monitor pending and rejected transactions in eCAPS to ensure all vendor payments are processed timely, and mark invoices "paid".**
8. **Work with the Departments of Public Health and the Auditor-Controller to resolve transactions in Health Services Administration's pending and rejected eCAPS queue.**

Non-Agreement and Agreement Purchases

ISD, as the County's purchasing agent, delegated to DHS the authority to purchase non-agreement items under \$5,000. All purchases over the delegated authority must be processed by ISD. Departments must comply with ISD policies when making non-agreement purchases under their delegated authority, including obtaining three price quotes for purchases over \$1,500.

ISD establishes agreements with vendors for commonly purchased items. Departments can purchase items covered by the agreements without obtaining price quotes, and purchases are not subject to the delegated authority limits. ISD purchasing policies indicate that departments should assist in identifying the potential need for additional agreements by monitoring frequent non-agreement purchases (i.e., vendors and/or items), and notifying ISD to establish new agreements when it is beneficial to the County.

We reviewed HSA's and OMC's purchases, and noted the following:

- **Sole Source Purchases** - HSA and OMC did not maintain documentation to support 11 (29%) of 38 sole source purchases made, totaling \$31,400.
- **Purchases Over Delegated Authority** - HSA and OMC did not send purchases that exceeded their delegated authority to ISD for five non-agreement purchases, totaling \$30,000, as required.

- **Expired Agreements** - HSA and OMC paid \$35,300 to a vendor for services that were covered by an expired vendor agreement. A new agreement had not yet been established because ISD was not notified timely to extend the agreement. HSA and OMC paid \$17,200 more than they would have if the terms of the agreement had been extended.
- **Agreement Purchases** - Materials Management inappropriately purchased a product using an agreement that did not include the product despite the existence of another agreement that did include it.

Recommendations

Health Services Administration and Office of Managed Care management:

9. **Solicit required price quotes, and only purchase from a sole source when items meet sole source criteria.**
10. **Submit all purchases over the delegated purchasing authority to the Internal Services Department for processing.**
11. **Consider whether an agreement extension is required for commonly purchased items or services, and advise the Internal Services Department of the need for future purchase order extensions at least four to six months prior to the expiration of the current agreement.**
12. **Utilize existing agreement vendors when purchasing agreement products.**

HMMS and eCAPS Security

As previously indicated, prior to the implementation of eCAPS Procurement, HSA and OMC used the HMMS procurement system to process purchases and payments, and track inventory. HMMS users entered requisitions/purchase orders, packing slips, and invoices into the System. Once the invoice was entered into HMMS, the system automatically matched the three documents, and then sent a payment request and an automated first level payment approval to eCAPS. The payment request was then workflowed to the required additional approvers in eCAPS. Opportunities we identified to strengthen system security controls within HMMS should be incorporated into the Department's ongoing implementation of eCAPS Procurement.

We reviewed controls over HMMS and eCAPS and noted the following:

- **HMMS User Access** - CFM Section 8.2.4 requires that system access be limited to only what is needed for users to perform their assigned job functions. At the

time of our review, we noted that 11 (52%) of 21 HMMS users had not signed on to the System for over 90 days, indicating that they may not need access.

- **HMMS User Profiles** - CFM requires that ordering, receiving, and invoice processing functions be segregated. We reviewed HMMS user profiles, and noted multiple instances where employees can perform multiple functions that should be segregated.
- **eCAPS Payment Controls** - CFM Section 4.5.5 requires the approval of two separate personnel, at least one of which has no purchasing, receiving, or accounts payable duties, when making payments. Also, no one person is authorized to submit and/or approve payments, and submit, approve and/or process encumbrances. We noted that six (8%) of the 80 HSA and OMC eCAPS approvers had this ability.
- **Inappropriate DPH Access** - We identified a total of 15 DPH employees who had access to HMMS, and/or HSA and OMC eCAPS transactions. Access should have been terminated when DPH separated from DHS in 2006. During our review, HSA and OMC management addressed most of these issues.
- **Data Accuracy** - We noted 42 payments in HMMS that were not properly updated with warrant information. Management indicated the discrepancies could be due to staff bypassing HMMS, and processing payments directly in eCAPS. HMMS and eCAPS can generate exception reports that, if reconciled, could identify discrepancies between the payment data. HSA and OMC should review and reconcile these reports to verify that transactions are accurate and complete, and properly document the review.

Recommendations

Health Services Administration and Office of Managed Care management:

13. **Regularly review security reports to ensure access to Health Materials Management System and eCAPS is appropriate, limited to authorized personnel, and meets established internal control plans.**
14. **Terminate Health Materials Management System and eCAPS user access when it is no longer needed.**
15. **Review and revise Health Materials Management System and eCAPS user profiles, as applicable, to ensure adequate separation of duties.**
16. **Collaborate with the Auditor-Controller to resolve the identified eCAPS internal control plan weaknesses.**

17. **Evaluate combined Health Materials Management System and eCAPS user profile assignments to maintain adequate separation of duties for each user.**
18. **Review and reconcile Health Materials Management System and eCAPS exception reports, and complete and document the review and reconciliation in a timely manner.**

Capital And Non-Capital Equipment

Capital equipment includes items with a useful life over one year and acquisition costs over \$5,000, and non-capital equipment includes portable items under \$5,000. CFM Chapter 6 requires departments to keep accurate equipment lists, track equipment with property tags, and assign responsibility for equipment. Departments must also conduct a physical inventory of capital equipment every two years, and non-capital equipment every year.

As of March 2012, HSA and OMC had capital equipment with a combined total acquisition cost of approximately \$42.9 million. Materials Management did not inventory capital and non-capital equipment, as required, and did not tag all of their equipment. In addition, individuals responsible for the equipment did not maintain accurate lists of equipment assigned to them.

We also noted that HSA's and OMC's capital and non-capital lists were not accurate. We inventoried 51 capital assets, totaling approximately \$23.4 million, and 30 non-capital assets, and noted the following:

- **Missing Assets** - HSA and OMC could not locate 27 (53%) of 51 capital assets, valued at approximately \$15.0 million, and three (10%) of 30 non-capital assets we reviewed.
- **Board Approval Documentation** - CFM Section 4.4.1 requires Board approval for all equipment purchases over \$250,000. HSA and OMC could not provide documentation of Board approval for nine capital assets, totaling \$6.0 million.
- **Certification** - HSA and OMC submitted a Capital Asset Inventory and Certification to the A-C indicating that they inventoried their capital assets. However, we determined the certification was incomplete since ten (43%) of 23 organizational sections under HSA and OMC did not submit inventory certifications. In addition, some sections' staff did not know the requirements for controlling equipment.
- **Asset Disposal** - CFM requires the manager authorizing the disposal of surplus and obsolete items to have no other capital asset responsibilities, and to properly

document asset disposals. We noted that the Capital Asset Manager also authorizes the disposal of surplus/obsolete items. In addition, seven (70%) of the ten surplus property disposal transactions reviewed were not properly documented (i.e., disposal authorization, disposition of asset, and auction/sales information).

Recommendations

Health Services Administration and Office of Managed Care management:

- 19. Ensure assets are tagged upon receipt, and equipment listings are current and accurate.**
- 20. Determine the status of the \$15 million in unaccounted capital assets, and update the equipment listings accordingly.**
- 21. Obtain Board approval for single asset purchases greater than \$250,000, and retain the related documentation.**
- 22. Submit the Inventory Certification to the Auditor-Controller only after a complete inventory of all 23 sections' assets has been completed, including follow-up on incomplete/missing inventory results to ensure all necessary updates are made to the Capital Asset Listing.**
- 23. Designate responsibility of asset disposal to an individual with no capital asset responsibility.**
- 24. Keep all required documentation for disposed equipment.**
- 25. Complete equipment inventories in accordance with the County Fiscal Manual requirements and instructions provided by Materials Management, and obtain clarification on instructions when needed.**

Review of Report

We discussed the results of our review with HSA and OMC management. They generally agreed with our findings and recommendations, and indicated they will work to improve controls over their procurement practices. DHS' attached response describes the corrective actions they have taken, or plan to take, to address the recommendations in our report. As previously mentioned, the A-C will conduct a follow-up review of procurement operations at all DHS facilities upon full implementation of eCAPS Procurement Department-wide. In the interim, HSA and OMC should ensure compliance with eCAPS procurement, security, capital asset, and non-capital asset controls included in CFM.

We thank DHS management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

WLW:RS

Attachment

c: Jim Jones, Acting Director, Internal Services Department
Tobi L. Moree, Audit & Compliance Division, DHS
Audit Committee



August 3, 2011

Los Angeles County
Board of Supervisors

Gloria Molina
First District

Mark Ridley-Thomas
Second District

Zev Yaroslavsky
Third District

Don Knabe
Fourth District

Michael D. Antonovich
Fifth District

TO: Wendy L. Watanabe
Auditor-Controller

FROM: Mitchell H. Katz, M.D.
Director

SUBJECT: **RESPONSE TO AUDITOR-CONTROLLER'S
PROCUREMENT REVIEW AT HEALTH SERVICES
ADMINISTRATION AND OFFICE OF MANAGED
CARE**

Mitchell H. Katz, M.D.
Director

Hai F. Yee, Jr., M.D., Ph.D.
Chief Medical Officer

John F. Schunhoff, Ph.D.
Chief Deputy Director

Attached is the Department of Health Services' response to the recommendations made in the Auditor-Controller's report of its review of Procurement at Health Services Administration and Office of Managed Care. We concur with and have taken or initiated corrective actions to address the recommendations contained in the report.

313 N. Figueroa Street, Suite 912
Los Angeles, CA 90012

Tel: (213) 240-8101
Fax: (213) 481-0503

www.dhs.lacounty.gov

If you have any questions or require additional information, please let me know or you may contact Jennifer Papp at (213) 240-7901.

MHK:eg

Attachment

c: John F. Schunhoff, Ph.D.
Gregory Polk

*To ensure access to high-quality,
patient-centered, cost-effective
health care to Los Angeles County
residents through direct services at
DHS facilities and through
collaboration with community and
university partners.*



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COUNTY OF LOS ANGELES – DEPARTMENT OF HEALTH SERVICES

RESPONSE TO AUDITOR-CONTROLLER PROCUREMENT REVIEW
HEALTH SERVICES ADMINISTRATION AND OFFICE OF MANAGED CARE

AUDITOR-CONTROLLER RECOMMENDATION #1

Division Management forward approved requisitions to Materials Management staff for solicitation.

DHS response:

We agree. In May 2011, Purchasing staff attended the Internal Services Department (ISD) Purchasing 101 Training which included instruction on the requirements for approving requisitions prior to solicitation and creation of a purchase order.

By August 31, 2011, the user departments will be re-instructed to forward approved requisitions to Supply Chain Operations (SCO) for solicitation and also to review the "Supply Chain Operations Quick Reference Guide" (effective October 2010) that can be accessed on the SCO's Intranet website.

AUDITOR-CONTROLLER RECOMMENDATION #2

Invoice Processing and Fiscal Services match original vendor invoices to a receiving report/shipping document or an approved invoice for services and ensure that prices invoiced are correct and in accordance with unit prices agreed upon before payment processing to prevent unauthorized pre-payments, overpayments, retro-active payments and duplicate payments.

DHS response:

We agree. SCO Receiving staff documents receipt of goods or services, enters the information into Health Materials Management System (HMMS) and provides the requisitions, purchase orders, and packing slips to Invoice Processing staff to perform the reconciliation process (three-way match). By August 31, 2011, the SCO Purchasing Manager will issue an internal "procedural bulletin" to SCO staff that will provide instruction on the receiving process, including the documentation requirement and input in to the HMMS system. The Purchasing Manager will also review the procedure at the monthly staff meeting.

Invoice Processing staff verify receipt of goods or services through HMMS and match the original vendor invoices to a receiving report/shipping document or an approved invoice for services and verify that prices invoiced are correct and in accordance with unit prices agreed upon before payment processing to prevent unauthorized pre-payments, overpayments, retro-active payments and duplicate payments.

HSA OMC Procurement Review Response
Page 2 of 9

Effective July 1, 2010, Office of Managed Care (OMC) staff matches the invoice, On-Line Requisitions (OLR), purchase order and agreement to ensure all the payments are appropriate. By August 15, 2011, Invoice Processing will forward the receiving report/shipping document or an approved invoice to OMC to complete the three way match prior to final payment processing.

AUDITOR-CONTROLLER RECOMMENDATION #3

Division Management instructs staff authorizing payment of invoices to request payment on verified outstanding liabilities.

DHS response:

We agree. Invoice Processing currently receives the Invoice Summary and Division Manager approval to request payment of verified outstanding liabilities. By August 31, 2011, Invoice Processing will require the Division Manager to verify and approve outstanding liabilities and will maintain the documentation including the attached approved invoices on file to support the payment amounts.

Additionally, OMC currently follows the Auditor-Controller (A-C) Disbursements Division instructions which indicate a replacement warrant can be issued up to four years from the issue date following the A-C's confirmation that a stop payment on the original warrant has been finalized and Affidavit documentation, signed by a company officer, is received that corroborates the payment was never received.

AUDITOR-CONTROLLER RECOMMENDATION #4

Invoice Processing and Fiscal Services ensure pre-payments are authorized by ISD.

DHS response:

We agree. In May 2011, the Purchasing staff completed ISD Purchasing 101 Training which included the requirements for authorization by ISD for pre-payments. Purchasing staff will document "Pre-payment Required" after authorization is obtained from ISD for pre-payment. Invoice Processing staff was instructed to verify "Pre-payment Required" is indicated on the purchase order prior to processing pre-payment requests.

AUDITOR-CONTROLLER RECOMMENDATION #5

Division Management ensure staff monitor purchase order pre-payments to ensure goods and services are received and any remaining balances are tracked and appropriately used.

HSA OMC Procurement Review Response
Page 3 of 9

DHS response:

We agree. In May 2011, the Purchasing staff completed ISD Purchasing 101 Training which included the requirements for authorization by ISD for pre-payments.

OMC implemented a log in July 2009, which was revised June 2010, in order to match requisitions, invoices, payment vouchers, and track charges. OMC Member Services ensures goods and services are received, and General Accounting tracks and appropriately uses remaining balances.

AUDITOR-CONTROLLER RECOMMENDATION #6

Fiscal Services establish procedures to confirm vendor receipt of hand delivered warrants.

DHS response:

We agree. By August 31, 2011, SCO will work with Fiscal Services to develop a procedure and implement a form to be signed by the vendor confirming receipt of hand delivered warrants and Purchasing staff will be trained on the new procedure. A copy of the signed form will be attached to the purchase order and provided to Invoice Processing, who will maintain the file. SCO and Fiscal Services will ensure warrants are only hand delivered if absolutely necessary.

AUDITOR-CONTROLLER RECOMMENDATION #7

Fiscal Services process vendor payments within 30 days of receipt of the vendor's invoice, monitor pending and rejected transaction in eCAPS to ensure all vendor payments are processed timely and mark invoices "paid".

DHS response:

We concur. Effective January 1, 2011, Invoice Processing monitors pending and rejected transactions in eCAPS weekly and marks invoices "paid". By August 31, 2011, SCO and Finance staff will work with the division managers to obtain approved invoices in a timely manner and ensure that vendor invoices are paid within 30 days of receipt.

AUDITOR-CONTROLLER RECOMMENDATION #8

Fiscal Services work with Public Health (PH) and the A-C in resolving PH Transactions in the HSA's pending and rejected queue.

DHS response:

We agree. By August 31, 2011, HSA Finance will work with the A-C and PH to access the eCAPS pending and rejected queue and resolve the PH pending transactions.

HSA OMC Procurement Review Response
Page 4 of 9

AUDITOR-CONTROLLER RECOMMENDATION #9

Materials Management ensure staff solicit required price quotes and only purchase from a sole source when items meet sole source criteria.

DHS response:

We agree. SCO will ensure staff solicit required price quotes and only purchase from a sole source when items meet sole source criteria. In May 2011, Purchasing staff completed the ISD Purchasing 101 Training, which provided instruction on obtaining price quotes, including specific dollar thresholds, and the criteria required to purchase from a sole source. The Purchasing Manager will review the procedure in monthly staff meetings.

Effective August 31, 2011, the Purchasing Manager or his designee will audit non-agreement requisitions monthly to ensure that price quotes are obtained, the sole source questionnaire is provided, purchases are only made from a sole source when items meet sole source criteria, requisitions of \$5,000 and over are submitted to ISD for processing and that documentation is maintained.

AUDITOR-CONTROLLER RECOMMENDATION #10

Materials Management ensures staff submits all purchases over the Division's delegated purchasing authority to ISD for processing.

DHS response:

We agree. In May 2011, Procurement staff completed the ISD Purchasing 101 Training, which included instructions to submit all purchases over the Division's delegated purchasing authority to ISD for processing. The Purchasing Manager will review the procedures in the monthly staff meetings.

AUDITOR-CONTROLLER RECOMMENDATION #11

Materials Management ensure staff consider whether an agreement extension is required for commonly purchased items or services and advise ISD of the need for future contract extensions at least four to six months prior to the expiration of the current agreement.

DHS response:

We agree. In May 2011, Purchasing staff completed ISD Purchasing 101 Training, which included instructions for staff to notify ISD of upcoming contract expirations at least four to six months prior to the expiration of the current agreement. The Purchasing Manager will review the procedure in monthly staff meetings.

HSA OMC Procurement Review Response
Page 5 of 9

Currently, ISD buyers e-mail the requesting/originating departments and the Procurement Manager approximately 120 days prior to the contract expiration date to inquire if the contract should be extended and also ask the vendor if they are interested in extending the agreement.

Effective July 1, 2012, implementation of eCAPS GHX System will contain a contract monitoring system including notification of contracts that will be expiring.

AUDITOR-CONTROLLER RECOMMENDATION #12

Materials Management ensure staff only buy appropriate agreement items when making agreement purchases.

DHS response:

We agree. In May 2011, Purchasing staff completed ISD Purchasing 101 Training, which included instructions to verify that an item is specified in the agreement when making agreement purchases. By October 31, 2011, the Purchasing Manager will issue a procedure with instructions for purchasing items that require a non-agreement purchase order. The Purchasing Manager will review the procedure in the monthly staff meeting.

AUDITOR-CONTROLLER RECOMMENDATION #13

Materials Management and Fiscal Services regularly review security reports to ensure access to HMMS and eCAPS is appropriate, limited to authorized personnel and meets established ICP's.

DHS response:

We agree. Effective June 1, 2011, Public Health (PH) staff access to HMMS has been deactivated as reflected on the HMMS User Report. Effective July 1, 2011, HSA Finance reviewed the eCAPS security report, which did not indicate PH had access. By August 31, 2011, HSA will work with the A-C to confirm PH employees do not have HSA eCAPS access.

OMC reviews the eCAPS security report annually to ensure it meets the requirements established by the Internal Control Plan (ICP), which was recently reviewed in May 2011. Beginning September 30, 2011, SCO will evaluate the HMMS security profile report on a quarterly basis and inform HSA Finance or OMC when User access changes are needed and will terminate access if no longer required.

AUDITOR-CONTROLLER RECOMMENDATION #14

Materials Management and Fiscal Services terminate HMMS and eCAPS user access when it is no longer needed.

HSA OMC Procurement Review Response
Page 6 of 9

DHS response:

We agree. Effective June 1, 2011, PH staff access to HMMS has been deactivated as reflected on the HMMS User Report. By September 30, 2011, SCO will evaluate remaining HMMS User access and terminate access if no longer required.

Effective January 2011, the HSA eCAPS coordinator reviews the "DHS Transfer/Termination" report provided by DHS Human Resources monthly to ensure that eCAPS Financial User access is terminated when HSA employees transfer to another County department or leave County service.

The OMC eCAPS security coordinator changes or removes the employees' access to eCAPS the day after any changes to the employees' status or responsibilities occur.

AUDITOR-CONTROLLER RECOMMENDATION #15

Materials Management and Fiscal Services restructure HMMS User Profiles to maintain adequate separation of duties.

DHS response:

We agree. SCO restructured HMMS User Profiles in order to maintain adequate separation of duties as indicated on the June 1, 2011 HMMS User Profiles report and will ensure separation of duties when new user profiles are added to HMMS.

AUDITOR-CONTROLLER RECOMMENDATION #16

Materials Management and Fiscal Services resolve the eCAPS ICP violations by working with the A-C.

DHS response:

We agree. By September 15, 2011, HSA Fiscal Services will work with the A-C to update the ICP and resolve the eCAPS ICP violations. When notified during the audit, OMC Fiscal Services worked with the A-C and resolved the eCAPS violation for the employee with two levels of approval capability. In May 2011, OMC completed an annual review to ensure the eCAPs matrix is in compliance with the eCAPS ICP.

AUDITOR-CONTROLLER RECOMMENDATION #17

Materials Management and Fiscal Services evaluate combined HMMS and eCAPS user profile assignments to maintain adequate separation of duties for each user.

HSA OMC Procurement Review Response
Page 7 of 9

DHS response:

We agree. SCO restructured HMMS User Profiles to maintain adequate separation of duties as indicated on the June 1, 2011 HMMS User Profiles report and will ensure separation of duties when new User profiles are added to HMMS. By September 15, 2011, HSA will update the ICP and submit it to A-C for approval. Beginning October 2011, OMC will work with SCO to review the HMMS and eCAPS User profiles annually to ensure the assignments are appropriate.

AUDITOR-CONTROLLER RECOMMENDATION #18

Materials Management and Fiscal Services review and reconcile the eCAPS and HMMS exception reports to ensure systems provide and process complete, accurate and authorized data and complete and document the review and reconciliations in a timely manner.

DHS response:

We agree. Since January 2010, Invoice Processing reviews the eCAPS rejected payments weekly and makes corrections as necessary. By August 31, 2011, SCO will work with the HSA eCAPS and HMMS coordinators as necessary to obtain access to the eCAPS and HMMS reports which identify warrants that are in eCAPS but not posted to HMMS. SCO will review the exception reports bi-weekly and make corrections as necessary. Discrepancies between HMMS and eCAPS payment data are generally due to manual warrant processing, which does not use the HMMS/eCAPS interface to process payments. By September 30, 2011, SCO and Fiscal Services will develop a procedure for manual warrant processing to ensure that complete, accurate and authorized payment data is manually entered into HMMS and is reconciled with eCAPS data.

AUDITOR-CONTROLLER RECOMMENDATION #19

Materials Management ensure assets are tagged upon receipt and ensure equipment listings are current and accurate.

DHS response:

We agree. As of July 31, 2010, all equipment was tagged and equipment lists were updated. On October 8, 2010, SCO created a "Capital Asset Request Checklist" form that was issued with Bulletin No. 10-2010 (05) that describes the proper transfer of any asset(s) and requires an updated inventory, including location, of those assets. Currently, Warehouse staff tag all equipment and update the equipment listings to ensure they are current and accurate. By August 15, 2011, the Purchasing Manager will implement a written procedure that requires the buyers to track the receipt of the equipment, by coordinating with the facility Warehouse managers and the vendors, to ensure it is tagged upon receipt and the equipment listing is updated.

HSA OMC Procurement Review Response
Page 8 of 9

AUDITOR-CONTROLLER RECOMMENDATION #20

Materials Management determine the status of the \$15 million in unaccounted for capital assets and update the equipment listings accordingly.

DHS response:

We agree. On July 31, 2010, SCO completed a physical inventory of capital equipment and located the 27 previously unaccounted for assets totaling approximately \$15 million. Fifteen assets totaling approximately \$6 million had been transferred to other DHS facilities and Fixed Asset Disposition (FD) documents were prepared and entered into eCAPS; two assets totaling \$10,473 were written off as obsolete and FD documents prepared and entered into eCAPS; the remaining ten items totaling \$9.2 million were located and SCO was able to obtain the packing slip or other receiving documents from the end user departments. As of July 31, 2010, the equipment list was updated and the equipment was tagged.

AUDITOR-CONTROLLER RECOMMENDATION #21

Materials Management consistently obtain Board approval for single asset purchases greater than \$250,000 and retain the related documentation.

DHS response:

We agree. Effective September 29, 2009, SCO obtains Board approval for single asset purchases greater than \$250,000 prior to submitting a requisition to the ISD and retains the related documentation.

AUDITOR-CONTROLLER RECOMMENDATION #22

Materials Management submit the Inventory Certification to the A-C only after a complete inventory of all 23 sections' assets has been completed and follow-up on incomplete inventory results to ensure all necessary updates are made to the Capital Asset Listing prior to submitting the Inventory results and Certification to the A-C.

DHS response:

We agree. In July 2010, SCO worked with all 23 sections to complete the inventory of all capital equipment, including following-up on incomplete inventory results and updating the Capital Asset Listing for missing or obsolete items as necessary, prior to submitting the Inventory results and Certification to the A-C. By October 31, 2011, SCO will send the capital and non-capital asset listings to all 23 sections in order to complete the bi-annual capital asset inventory which is due by July 31, 2012. In addition, beginning October 31, 2011, the non-capital asset listings will be sent to all sections for inventory on an annual basis.

HSA OMC Procurement Review Response
Page 9 of 9

AUDITOR-CONTROLLER RECOMMENDATION #23

Materials Management designate responsibility of asset disposal to an individual with no capital asset responsibility.

DHS response:

We agree. Effective February 2011, the Warehouse Manager has capital asset responsibilities and the responsibility of asset disposal was designated to a warehouse worker with no capital asset responsibilities to ensure separation of duties.

AUDITOR-CONTROLLER RECOMMENDATION #24

Materials Management keep all required documentation for disposed equipment.

DHS response:

We agree. By August 15, 2011, the Purchasing manager will develop an internal procedure that specifies required approval, methods of disposal, and the documentation to be maintained, which will be reviewed with Warehouse staff at the monthly meeting. In January 2010, Warehouse staff began attending ISD Surplus Coordinator meetings related to surplus procedures.

AUDITOR-CONTROLLER RECOMMENDATION #25

HSA and OMC Division Management complete equipment inventories in accordance with CFM requirements and instructions provided by Materials Management and obtain clarification on instructions when needed.

DHS response:

We agree. In July 2010, SCO worked with all 23 sections to complete the inventory of all capital equipment, including following-up on incomplete inventory results and updating the Capital Asset Listing for missing or obsolete items as necessary. By October 31, 2011, SCO will send the capital and non-capital asset listings to all 23 sections in order to complete the bi-annual capital asset inventory, which is due by July 31, 2012, and will notify the user departments to obtain clarification on the instructions when needed. The non-capital listings will be sent to all sections for inventory on an annual basis beginning October 31, 2011. By December 31, 2011, SCO staff will ensure that all DHS facilities are informed of CFM requirements.